

KITSAP COUNTY SEWER DISTRICT No. 5
Kitsap County, Washington
January 1, 1989 Through December 31, 1991

Schedule Of Findings

1. The District Should Reimburse Travel Expenses In Accordance With Internal Revenue Service (IRS) Regulations

District employees were reimbursed for travel expenses which were much higher than amounts allowed by IRS regulations.

- a. For the period October 1989 through December 1992, the district paid its employees per diem which exceed the allowed IRS rates by the following amounts:

<u>Period</u>	<u>Per Diem In Excess Of Regular Federal Rate</u>
October - December 1989	\$1,739
January - June 1990	118
July - December 1990	875
January - December 1991	1,348
January - December 1992	<u>4,181</u>
Total	<u>\$8,261</u>

- b. In addition, the district reimbursed employees for vehicle mileage at 35 cents per mile. The IRS rate per mile was 28 cents in 1992, 27.5 cents in 1991, 26 cents in 1990, and 24 cents in 1989.

Under the Family Support Act of 1988 which became effective July 1, 1990, reimbursements which exceed IRS limits are subject to tax withholding for federal income, Federal Insurance Contributions Act (FICA), and Federal Unemployment Tax Act (FUTA). Under prior law, reimbursements that were higher than allowed were treated as "other compensation." These transactions should have been reported as federal taxable income, but were not subject to tax withholding for federal income, FICA, and FUTA.

In our opinion, these excess employee travel reimbursements leave the district open to IRS penalties.

The district was not aware of these IRS travel regulations.

We recommend the district:

- a. Amend its travel policies to comply with IRS requirements.
- b. Resolve excess employee travel reimbursements with the IRS.